SaskTel

Consolidated Financial Statements of

SASKATCHEWAN TELECOMMUNICATIONS INTERNATIONAL, INC.

December 31, 2003

President's Message

Saskatchewan Telecommunications International, Inc. (SaskTel International) is incorporated under the laws of the Province of Saskatchewan. As a wholly owned subsidiary of the Saskatchewan Telecommunications Holding Corporation and with its Head office in Regina, it has a mandate to pursue telecommunications related business opportunities worldwide.

Since 1986, SaskTel International has been marketing SaskTel's technological and software solutions expertise to customers around the world. Advanced technologies that were developed to serve the people of Saskatchewan, especially in fiber optics, digital switching and software systems, have opened the doors to international markets. Today SaskTel International, either independently or in partnership with other firms, helps its customers in countries around the world develop, improve and expand their telecommunications systems. SaskTel International's unique relationship with SaskTel, a successful independent operating telecommunications company that is not affiliated with any specific equipment vendor, allows it to search the global marketplace and offer unbiased solutions to its customers.

In addition to providing technological and software solutions to customers throughout the world, SaskTel International has, in recent years, brought successful investment opportunities to the SaskTel Holding Corporation. SaskTel International was instrumental in SaskTel investing in LCL Cable Communications Limited in England and, more recently, Saturn Communications Inc. in New Zealand. Combined, the sale of these investments was responsible for generating a net profit for SaskTel and the Province of Saskatchewan of more than $100 million.

In its own right SaskTel International has been profitable for twelve consecutive years. Net income for 2003 exceeded $800 thousand, bringing total operating profits exclusive of investment gains since 1986 to more than $19 million. Total revenues for that same time period exceeded $240 million. SaskTel International's success in 2003 can be attributed to securing software sales with its existing client base, the successful completion of the Tanzania Telecommunications Company Limited rehabilitation project in Tanzania and managing its cost structure in light of the recent downturn in the telecommunications industry worldwide.

SaskTel International has also given over 500 employees the opportunity to work on international projects to further grow and enhance their skills for when they return to SaskTel. Since 1986 SaskTel International has given technical expertise to international markets by participating in over 60 projects in more than 30 countries.

The year 2004 will see SaskTel International operate in a continued difficult telecommunications environment; however, it will continue to position itself strategically to ensure it secures projects when markets show signs of growth once again.

2003 SaskTel International Highlights

Network Division

During 2003 SaskTel International's Network Division successfully concluded a network infrastructure project contract worth $2.1 million for the Tanzania Telecommunications Company Limited (TTCL) in Tanzania. SaskTel International rehabilitated TTCL's outside plant network in the city of Dar es Salaam, as well as extensions to the outside plant networks in three other cities. The project began in early June and was completed at year end.

Late in 2003, SaskTel International received formal recognition from the Canadian Department of Foreign Affairs and International Trade for its successful relationship in Tanzania in implementing numerous telecommunication projects that were funded by Multilateral Development Banks, the Canadian International Development Agency and other donors. The Minister for International Trade issued a formal letter to SaskTel International thanking them for their contributions throughout the world and encouraged SaskTel International to continue its projects internationally with a focus on developing countries.

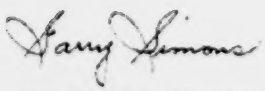
Software Division

In 2003, the Software Division generated record revenues from our MARTENS International Client Association (MICA) members as a number of newly released SI software products were implemented within our client's organizations.The relationship between the Software Division and SaskTel was expanded by the selection of SI's TRACS Repair Management product to manage SaskTel's voice trouble processes and the rollout of the OpenSwitchGate Access service activation product at SaskTel Mobility.

OpenSwitchGate Access went into production at Mobility in June, 2003 and began processing all customer additions, changes and disconnects for cellular and voice mail services. At the end of 2003, Access also began activating Mobility's popular 1XRTT data and camera phone services. The combination of Mobility's expertise with the creation and management of new cellular voice and data services and SI's experience with wireline activation processes resulted in a new solution that will economically provide a high level of service to Mobility's customers and expanded the scope of SI's product set to include the wireless market.

Investment Division

In keeping with SaskTel's investment successes in New Zealand and the U.K., the Investment Division continued to explore profitable investment opportunities in selected markets worldwide and will continue to do so in 2004.



Gary Simons, President, SaskTel International

KPMG LLP
Chartered Accountants
2000 - 1881 Scarth Street
Regina SK S4P 4K9

Telephone (306) 791-1200
Telefax (306) 757-4703
www.kpmg.ca

AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Telecommunications International, Inc. as at December 31, 2003 and the consolidated statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
January 14, 2004

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

CONSOLIDATED STATEMENT OF OPERATIONS

For the year ended December 31 (Thousands of dollars)	**2003**	2002
Sales and consulting revenue	**$ 11,251**	$ 11,371
Direct expenses	**7,577**	7,214
Gross profit	**3,674**	4,157
Operating expenses	**3,097**	3,537
Operating income	**577**	620
Other items	**299**	394
Net income	**$ 876**	$ 1,014

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the year ended December 31 (Thousands of dollars)	**2003**	2002
Retained earnings, beginning of year	**$ 7,659**	$ 7,558
Net income	**876**	1,014
	8,535	8,572
Dividends	**789**	913
Retained earnings, end of year	**$ 7,746**	$ 7,659

See Accompanying Notes

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31 (Thousands of dollars)	**2003**	2002
Assets		
Current assets		
Cash and short-term investments (Note 3)	**$ 9,309**	$ 8,856
Accounts receivable	**1,259**	2,356
Prepaid expenses	**17**	11
	10,585	11,223
Property, plant and equipment (Note 4)	**308**	320
	$ 10,893	$ 11,543
Liabilities and shareholder's equity		
Current liabilities		
Accounts payable	**$ 1,358**	$ 1,676
Unearned revenue	**-**	295
Dividend payable	**789**	913
	2,147	2,884
Shareholder's equity		
Share capital		
Authorized-unlimited number of class A common shares		
Issued - 1,000,000 shares	**1,000**	1,000
Retained earnings	**7,746**	7,659
	8,746	8,659
	$ 10,893	$ 11,543

See Accompanying Notes

On behalf of the Board

Garry Simons

Randy Stephanson

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (Thousands of dollars)	**2003**	2002
Cash provided by (used in):		
Operating activities		
Net income	$ **876**	$ 1,014
Items not affecting cash from operations (Note 5)	**56**	62
Net change in non-cash working capital items (Note 6)	**478**	2,334
	1,410	3,410
Financing activities		
Dividends paid	**(913)**	-
	(913)	-
Investing activities		
Property, plant and equipment expenditures	**(44)**	(39)
	(44)	(39)
Increase in cash	**453**	3,371
Cash and cash equivalents, beginning of year	**8,856**	5,485
Cash and cash equivalents, end of year	$ **9,309**	$ 8,856
Comprised of:		
Cash	$ **520**	$ 11
Short-term investments	**8,789**	8,845
	$ **9,309**	$ 8,856

See Accompanying Notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 -- The Corporation

Saskatchewan Telecommunications International, Inc. (the Corporation) is incorporated under the laws of the Province of Saskatchewan. The Corporation is a wholly owned subsidiary of Saskatchewan Telecommunications Holding Corporation (Holdco) with the mandate of pursuing core telecommunications business opportunities worldwide.

The financial results of the Corporation are included in the consolidated financial statements of Holdco. As a wholly owned subsidiary of Holdco, a Saskatchewan Provincial Crown corporation, the Corporation is not subject to Federal or Provincial income taxes in Canada.

Note 2 -- Summary of significant accounting policies

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada. The most significant policies are outlined below.

Consolidation
The consolidated financial statements include the accounts of the Corporation and its subsidiaries, SaskTel International Consulting, Inc. and Saskatchewan Telecommunications International (Tanzania) Limited. All significant intercompany transactions and balances have been eliminated.

Cash and short-term investments
Cash and short-term investments include interest bearing investments with Holdco that are due on demand and are stated at cost which approximates market value.

Revenue recognition
Operating revenues from the sale of software, equipment and consulting services are recognized at the point of sale or when services are provided. For longer term consulting contracts, the percentage of completion method is used.

Work in process
Work in process is valued at the lower of cost and net realizable value.

Property, plant and equipment
Office furniture and equipment is recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is calculated on a straight-line basis over the useful life of the asset.

Foreign currency translation
Monetary assets expressed in foreign currencies are recorded in Canadian dollars at the foreign exchange rate prevailing at year-end. Foreign exchange gains and losses arising on translation are charged to income or expense in the current year.

Use of estimates
The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3 -- Short-term investments

The balance represents funds invested with Holdco at an effective average interest rate of 2.96% (2002 – 2.53%).

Note 4 -- Property, plant and equipment

Asset	Useful life
Office furniture and equipment	4 - 17 years

	Cost	Accumulated depreciation and amortization	Net book value	
			2003	2002
			(Thousands of dollars)	
Office furniture and equipment	**$ 521**	**$ 213**	**$ 308**	$ 320

Note 5 -- Items not affecting cash from operations

	2003	2002
	(Thousands of dollars)	
Depreciation and amortization	**$ 56**	$ 62

Note 6 -- Net change in non-cash working capital items

	2003	2002
	(Thousands of dollars)	
Accounts receivable	**$ 1,097**	$ (512)
Prepaid expenses	**(6)**	6
Work in process	**-**	784
Due from SaskTel Holding (New Zealand) Inc.	**-**	1,967
Accounts payable	**(318)**	(206)
Unearned revenue	**(295)**	295
	$ 478	$ 2,334

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7 -- Financial instruments

Currency exposure

The Corporation's primary business is international telecommunications consulting, through contracts, which entails exposure to foreign exchange risk. The Corporation's foreign exchange risk relates primarily to the risk that the market value of accounts receivable and the associated revenues, and accounts payable and the associated expenses will fluctuate due to changes in exchange rates. A portion of the Corporation's accounts receivable and accounts payable are denominated in United States dollars, Great Britain pounds, Australia dollars and Tanzania schillings. The Corporation uses a combination of derivative financial instruments to manage foreign exchange risk exposures. At December 31, 2003, the Corporation did not have any outstanding derivative financial instruments.

Credit risk

The Corporation is exposed to credit risk relating to accounts receivable balances from international contracts. The accounts receivable balances are primarily from large telecommunications companies or international government development agencies.

Fair value

The carrying amounts of cash, short-term investments, accounts receivable, accounts payable, and dividend payable approximate fair value due to the short-term nature of these instruments.

Note 8 -- Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and Holdco (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2003	2002
	(Thousands of dollars)	
Sales and consulting revenue	**$ 2,204**	$ 1,426
Direct and operating expenses	**893**	1,037
Short-term investments	**8,789**	8,845
Accounts receivable	**389**	238
Accounts payable	**129**	736

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Note 9 – Comparative figures

2002 figures have been reclassified to conform to current year's presentation.